



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### City of Pullman

Whitman County

For the period January 1, 2015 through December 31, 2015

Published September 19, 2016

Report No. 1017505





## Washington State Auditor's Office

September 19, 2016

Mayor and City Council  
City of Pullman  
Pullman, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Pullman's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	6
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance .....	8
Independent Auditor’s Report On Financial Statements .....	11
Financial Section.....	15
About The State Auditor’s Office.....	90

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Pullman  
Whitman County  
January 1, 2015 through December 31, 2015**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Pullman are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

### Federal Awards

#### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Pullman  
Whitman County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Pullman  
Pullman, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 2, 2016. As discussed in Note 20 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented,

or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 2, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Pullman  
Whitman County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Pullman  
Pullman, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Pullman, Whitman County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 2, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Pullman Whitman County January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Pullman  
Pullman, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 20 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 24, information on postemployment benefits other than pensions on page 83 and pension plan information on pages 84 through 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

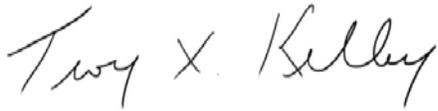
### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 2, 2016

## FINANCIAL SECTION

**City of Pullman  
Whitman County  
January 1, 2015 through December 31, 2015**

### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2015

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Fund – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

### REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits – LEOFF 1 Retiree Medical Benefits Schedule of Funding Progress – 2015

Schedule of Proportionate Share of the Net Pension Liability – 2015

Schedule of Employer Contributions – 2015

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Pullman, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2015. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

### Financial Highlights

- The City's assets exceeded its liabilities by \$118,943,282 (net position) for the fiscal year reported.
- Total net position are comprised of the following:
  - (1) Net investment in capital assets of \$88,644,151 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$7,498,281 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$22,800,850 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$13,303,624 this year. This compares to the prior year ending fund balance of \$11,932,273, showing an increase of \$1,371,351 during the current year. Unassigned fund balance of \$4,412,531 for fiscal year 2015 shows a \$965 decrease from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,412,531, or 22.7 percent of total General Fund revenues and 23.1 percent of total General Fund expenditures.
- Overall, the City continues to maintain a stable financial position.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

### Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The intent of this section of the management's discussion and analysis is to introduce and explain the basic financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States as proclaimed by the GASB principles.

### Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to that used by the private sector.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as changes to the City's property tax base, changes to the sales tax base, and the condition of the City's infrastructure.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements differentiate governmental activities of the City that are principally supported by property, sales and utility taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government services, public safety, physical environment, transportation, economic environment, mental health & physical health, and culture and recreation. Business-type activities include the utility services and transit services. The internal service funds provide services to other funds within the City and the majority of these activities are reported in governmental activities at the government-wide financial reporting level.

The government-wide financial statements are presented immediately following this Management Discussion and Analysis (MD&A).

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregate presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to illustrate the differences between these two perspectives.

Budgetary comparison statements are included as "basic financial statements" for the major, general and street funds. These statements demonstrate compliance with the City's adopted and final revised budget.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City proprietary funds are classified as enterprise funds. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service funds provide services to other funds of the City.

*Fiduciary funds* include one fund. The City reports this fund only at the fund level since the resources in this fund is not available for City use.

### ***Notes To The Basic Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

### ***Financial Analysis of the City as a Whole***

The City implemented the new financial reporting model used in this report beginning with the year ended December 31, 2003. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011.

The City's net position at fiscal year-end are \$118,943,282. The following table provides a summary of the City's net position as of December 31, 2015 and December 31, 2014:

**Summary of Net Position**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>		<b>Percentage</b>	
	<b>Activities</b>		<b>Activities</b>				<b>Of Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>								
Current assets	\$14,738,056	\$15,464,102	\$22,846,902	\$20,138,338	\$37,584,958	\$35,602,440	26.4%	26.5%
Restricted assets	3,337,257	640,683	10,870	1,520	3,348,127	642,203	2.3%	0.5%
Capital assets	36,521,763	34,225,654	62,925,250	63,974,602	99,447,013	98,200,256	69.8%	73.0%
Net pension asset	<u>1,572,471</u>	—	<u>549,336</u>	—	<u>2,121,807</u>	—	<u>1.5%</u>	<u>0.0%</u>
Total assets	<u>56,169,547</u>	<u>50,330,439</u>	<u>86,332,358</u>	<u>84,114,460</u>	<u>142,501,905</u>	<u>134,444,899</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Deferred outflows of resources</b>								
	<u>1,197,923</u>	—	<u>418,490</u>	—	<u>1,616,413</u>	—	<u>100.0%</u>	
<b>Liabilities:</b>								
Current liabilities	2,879,236	2,927,220	1,965,726	2,236,172	4,844,962	5,163,392	33.9%	28.5%
Long-term liabilities	2,688,685	2,491,786	9,267,125	10,449,142	11,955,810	12,940,928	18.8%	71.5%
Net pension liability	<u>4,999,588</u>	—	<u>1,746,584</u>	—	<u>6,746,172</u>	—	<u>47.3%</u>	<u>0.5%</u>
Total liabilities	<u>10,567,509</u>	<u>5,419,006</u>	<u>12,979,435</u>	<u>12,685,314</u>	<u>23,546,944</u>	<u>18,104,320</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Deferred inflows of resources</b>								
	<u>1,206,579</u>	—	<u>421,513</u>	—	<u>1,628,092</u>	—	<u>100.0%</u>	
<b>Net position:</b>								
<b>Net investment in</b>								
capital assets	35,991,763	33,378,197	52,652,388	52,121,077	88,644,151	85,499,274	74.5%	73.5%
Restricted	6,798,281	4,237,402	700,000	710,000	7,498,281	4,947,402	6.3%	4.2%
Unrestricted	<u>2,803,338</u>	<u>7,295,834</u>	<u>19,997,512</u>	<u>18,598,069</u>	<u>22,800,850</u>	<u>25,893,903</u>	<u>19.2%</u>	<u>22.3%</u>
Total net position	<u>45,593,382</u>	<u>\$44,911,433</u>	<u>73,349,900</u>	<u>\$71,429,146</u>	<u>118,943,282</u>	<u>\$116,340,579</u>	<u>100.0%</u>	<u>100.0%</u>

The City continues to maintain an acceptable current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 5.1 to 1 and 11.6 to 1 for business-type activities. For the City overall, the current ratio is 7.8 to 1. We consider these ratios within an acceptable range.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$681,949 for governmental activities and increased by \$1,920,754 for business-type activities. The City's overall financial position improved during fiscal year 2015.

Note that approximately 80.1 percent of the governmental activities' net position are tied up in capital. Also, note that the City began capitalizing their total infrastructure December 31, 2007. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent approximately 85.8 percent of its net position on capital. Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 83.6 percent of the City's total net position.

The following table provides a summary of the City's changes in net position as of December 31, 2015 and December 31, 2014:

**Summary of Changes in Net Position**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>		<u>Percentage</u> <u>Of Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:								
Program:								
Charges for services	\$3,271,418	\$3,373,938	\$15,692,935	\$15,989,466	\$18,964,353	\$19,363,404	45.9%	43.6%
Fines and forfeits	-	-	-	-	-	-	0.0%	0.0%
Miscellaneous	-	-	-	-	-	-	0.0%	0.0%
Operating Grants	1,829,994	1,891,636	731,117	1,533,015	2,561,111	6,093,109	6.2%	7.7%
Capital Grants	1,106,238	1,943,843	639,360	1,457,420	1,745,598	1,457,420	4.2%	7.7%
General:								
Taxes	17,885,469	18,071,070	-	-	17,885,469	17,346,458	43.2%	40.7%
Interest	132,239	109,097	37,783	39,664	170,022	148,761	0.4%	0.3%
Other revenues	48,879	7,435	347	3,629	49,226	11,064	0.1%	0.0%
Disposition of capital assets	-	-	-	-	-	-	0.0%	0.0%
<b>Total revenues</b>	<b><u>24,274,237</u></b>	<b><u>25,397,022</u></b>	<b><u>17,101,542</u></b>	<b><u>19,023,194</u></b>	<b><u>41,375,779</u></b>	<b><u>44,420,216</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>
Program expenses:								
Gen Gov't Services	2,131,719	1,297,533	-	-	2,131,719	1,297,533	5.8%	4.0%
Public Safety	13,490,013	11,468,743	-	-	13,490,013	11,468,743	36.6%	35.3%
Highways and Streets	1,735,475	1,888,605	-	-	1,735,475	1,888,605	4.7%	5.8%
Economic Development	-	-	-	-	-	-	0.0%	0.0%
Culture & Recreation	5,501,970	5,534,996	-	-	5,501,970	5,534,996	15.0%	17.1%
Int & Other Debt Service Costs	69,214	80,072	-	-	69,214	80,072	0.2%	0.2%
Utilities	-	-	9,553,294	8,753,657	9,553,294	8,753,657	26.0%	27.0%
Other business types	-	-	<u>4,323,682</u>	<u>3,439,198</u>	<u>4,323,682</u>	<u>3,439,198</u>	<u>11.7%</u>	<u>10.6%</u>
<b>Total expenses</b>	<b><u>22,928,391</u></b>	<b><u>20,269,949</u></b>	<b><u>13,876,943</u></b>	<b><u>12,192,855</u></b>	<b><u>36,805,367</u></b>	<b><u>32,462,804</u></b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>
Excess revenues	1,345,846	5,127,073	3,224,566	6,830,339	4,570,412	11,957,412		
Transfers	4,475	9,985	(4,475)	(4,549)	-	5,436		
Prior period adjustments	3,050,976	-	-	-	3,050,976	-		
Cumulative effect of a change in accounting principles	<u>(3,719,348)</u>	-	<u>(1,299,337)</u>	-	<u>(5,018,685)</u>	-		
Change in net position	681,949	5,137,058	1,920,754	6,825,790	2,602,703	11,962,848		
Beginning net position	<u>44,911,433</u>	<u>39,774,375</u>	<u>71,429,146</u>	<u>64,603,356</u>	<u>116,340,579</u>	<u>104,377,731</u>		
Ending net position	<b><u>\$45,593,382</u></b>	<b><u>\$44,911,433</u></b>	<b><u>\$73,349,900</u></b>	<b><u>\$71,429,146</u></b>	<b><u>\$118,943,282</u></b>	<b><u>\$116,340,579</u></b>		

**GOVERNMENTAL REVENUES**

The City is heavily reliant on three types of taxes to support governmental operations. Property taxes provided 29.6 percent of the revenues for governmental activities. Sales taxes provided 17.9 percent of these revenues, and utility taxes total 15.8 percent. Charges for services totaled 13.4 percent of these revenues. Note that program revenues cover approximately 27.1 percent of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 72.9 percent of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

**GOVERNMENTAL FUNCTIONAL EXPENSES**

Public safety costs comprise 58.8 percent of the City's total governmental expenses. Culture & Recreation expenses are 24.0 percent of governmental expenses. Highways and Streets costs make up 7.6 percent of the total governmental expenses. The general government services expenses are 9.3 percent of governmental expenses.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

**Governmental Activities**

	<u>Total Cost Of Services</u>		<u>Net Cost Of Services</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Gen Gov't Services	\$2,131,716	\$1,297,533	\$(1,141,332)	\$(307,964)
Public Safety	13,490,013	11,468,743	(11,627,706)	(9,275,181)
Highways and Streets	1,735,475	1,888,605	267,987	562,270
Culture & Recreation	5,501,970	5,534,996	(4,150,476)	(3,959,582)
Int & Other Debt Service Costs	<u>69,214</u>	<u>80,072</u>	<u>(69,214)</u>	<u>(80,072)</u>
Total	<u>\$22,928,391</u>	<u>\$20,269,949</u>	<u>\$(16,720,741)</u>	<u>\$(13,060,529)</u>

Program revenues covered the program expenses for only one function, interest on long-term debt.

**BUSINESS-TYPE ACTIVITIES  
Revenues vs. Costs**

For all enterprise funds, the City reports a current ratio of 11.6 to 1, which is a healthy ratio. The business-type activities report capitalized assets of \$62.9 million, which provide a variety of services to the citizens of Pullman.

The business-type activities report \$20.0 million in unrestricted net position, which provides these funds with adequate resources to maintain service levels without substantial increases in their revenue streams.

The operating revenues for both of the City's enterprise funds decreased \$231,923 or 1.6 percent more than 2014, with operating expenses \$329,705 or 2.5 percent more than 2014. Within the total business-type activities of the City, these enterprise funds reported \$605,628 operating income compared to operating income of \$1,167,256 for the prior year. A detailed discussion of the major enterprise funds is presented in a separate section below.

**Financial Analysis of the City's Funds**

**Governmental funds**

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately \$13.3 million. Of this year-end total, \$4.4 million is unassigned indicating an increasing availability for continuing City service requirements. Legally restricted fund balances, are captured under other governmental funds, include \$1,929,371 for special revenue funds, \$43,154 for the Lawson Gardens Expendable Trust, and \$268,315 for the Cemetery Perpetual Care Fund. Legally nonspendable fund balances reported under other governmental funds include \$3,020,602 for the Lawson Gardens permanent endowment fund.

The total ending fund balances of governmental funds show an increase of \$1,371,351 or 11.5 percent above the prior year. This increase is primarily the result of the events and programs described within the analysis of the City's governmental activities.

**Major Governmental Funds**

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$1,000,246. In the prior year, the fund balance increased by \$2,671,098. Unassigned fund balance as a percentage of expenditures was 23.1 percent of operations or slightly less than three months of operations. The unassigned fund balance is in a better position to protect the fund against unforeseen emergencies or downturns in the economy.

Taxes totaling \$17.9 million made up 73.7 percent of total governmental funds revenue in 2015 as compared to 68.3 percent in 2014.

General fund expenditures increased \$3,835,120 or approximately 23.1 percent, primarily due to public safety, but the general fund actual expenditures are \$718,571 less than budget. Public safety made up 64.2 percent of total expenditure. Since the general fund supports a number of programs in other funds, \$5,083 was transferred to the information systems fund.

The streets fund ended the year with a decrease in fund balance of \$184,106. After the above-mentioned transfers, the net fund balance in the equipment rental, government buildings, and the information systems funds were \$7,132,973, \$820,662 and \$492,127, respectively.

### ***The Proprietary Funds***

The City reports two primary enterprise funds, of which both are considered major funds. One fund provides the utility services of water, sewer, and stormwater and the other provides transit services to the citizens of Pullman. The City also maintains three internal service funds.

***The Water, Sewer, and Stormwater Systems*** - The water, sewer, and stormwater systems report net position of \$65.0 million, with \$46.1 million or 70.9 percent invested in capital assets. The current ratio for this fund is 12.2 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water, sewer, and stormwater systems reported operating income of \$2,851,064 with a total increase in net position of approximately \$2,865,761 after capital contributions and transfers in from other funds. The operating income amount is less favorable than the operating income of \$3,584,713 in 2014. The change in net position amount is less favorable than the change in net position of \$5.2 million in 2014.

***The Transit System*** - The transit system reports net position of \$6.7 million, with \$6.6 million or 97.6 percent invested in capital assets. The current ratio for this fund is 3.5 to 1 which provides this fund with adequate resources to cover cash flow issues.

The transit system reported operating loss of \$2,245,436 with a total decrease in net position of approximately \$998,230 after capital contributions and transfers in from other funds. The operating income amount is more favorable than the loss of \$2,417,457 in 2014. The change in net position amount is less favorable than the increase in net position of \$56,450 in 2014.

### **Budgetary Highlights**

***The General Fund*** - The General Fund's original revenue budget was less than the 2015 actual results and the original expenditure budget was more than the 2015 actual results. The City Council did not amend the revenue budget. The City Council amended the expenditure budgets during 2015, which resulted in a 8.6 percent net change between the original and final budgets. In total, actual revenues were more than the final budget by \$809,623 or about 4.4 percent above budget. The primary changes in the revenue budgets are related to taxes and building permits. The total actual expenditures were less than the final budget by \$718,571 or about 3.4 percent below budget. The primary changes to the expenditure budgets were salary and benefit costs savings due to vacancies that occurred over the year.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to sales taxes and utility taxes. The difference in sales taxes relates to an increase in sales taxable building construction projects over expectations. The difference in utility taxes relates to increase in electricity/gas tax.

On the expenditure side of the budget, the largest favorable variances between the final budget and the actual amounts are in cultural and recreational and police. The actual amounts expended by cultural and recreational were less than the final budget by \$338,661 or a 7.0 percent difference. The police function was less than the final budget by \$148,915 or a 2.4 percent difference.

The City staff considers the annual budget to be an extremely important document and attempts to include in the budget, their best estimate of revenue and expenditures.

## Capital Assets and Debt Administration

### Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2015, was \$36.5 million and \$62.9 million, respectively. The total change in net investment was a 6.7 percent increase for governmental and a 1.6 percent decrease for business-type activities. The overall increase was 1.3 percent for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year. The following table provides a summary of capital asset activity:

<b>Capital Assets</b>								
(Amounts Presented in \$1,000's)								
	Governmental		Business-Type		Total		Percentage	
	Activities		Activities		Total		Of Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Non-depreciable assets:								
Land	\$1,306	\$1,306	\$997	\$997	\$2,303	\$2,303	1.5%	1.5%
Construction in progress	<u>2,627</u>	<u>855</u>	<u>5,527</u>	<u>4,874</u>	<u>8,154</u>	<u>5,729</u>	<u>5.3%</u>	<u>3.9%</u>
Total non-depreciable	<u>3,933</u>	<u>2,161</u>	<u>6,524</u>	<u>5,871</u>	<u>10,457</u>	<u>8,032</u>	<u>6.8%</u>	<u>5.4%</u>
Depreciable assets:								
Plant in service	-	-	87,426	86,648	87,426	86,648	57.2%	58.7%
Buildings	6,880	6,362	-	-	6,880	6,362	4.5%	4.3%
Other improvements	5,841	5,815	-	-	5,841	5,815	3.8%	3.9%
Machinery and equipment	9,510	9,412	-	-	9,510	9,412	6.2%	6.4%
Infrastructure	<u>32,874</u>	<u>31,378</u>	-	-	<u>32,874</u>	<u>31,378</u>	<u>21.5%</u>	<u>21.3%</u>
Total depreciable assets	<u>55,105</u>	<u>52,967</u>	<u>87,426</u>	<u>86,648</u>	<u>142,531</u>	<u>139,615</u>	<u>93.2%</u>	<u>94.6%</u>
Total cost of capital assets	59,038	55,128	93,950	92,519	152,988	147,647	<u>100.0%</u>	<u>100.0%</u>
Accumulated depreciation	<u>22,516</u>	<u>20,902</u>	<u>31,025</u>	<u>28,544</u>	<u>53,541</u>	<u>49,446</u>		
Book value - capital assets	<u>\$36,522</u>	<u>\$34,226</u>	<u>\$62,925</u>	<u>\$63,975</u>	<u>\$99,447</u>	<u>\$98,201</u>		
Percentage depreciated	<u>38.1%</u>	<u>37.9%</u>	<u>33.0%</u>	<u>30.9%</u>	<u>35.0%</u>	<u>33.5%</u>		

At December 31, 2015, the depreciable capital assets for governmental activities were 38.1 percent depreciated compared to 37.9 percent at December 31, 2014. These percentages provide an indicator that the City is maintaining and replacing their assets at a slightly unfavorable rate.

With the City's business type activities, 33.0 percent of the asset values were depreciated at December 31, 2015 compared to 30.9 percent at December 31, 2014. These percentages provide an indicator that the City is maintaining and replacing their assets at a favorable rate.

### Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of \$10.8 million. Of this amount, \$530,000 or 4.9 percent is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue, and revenue bonds amounting to \$3,424,000 or 31.7 percent. The other major components are \$6,849,000 supported by pledged revenues generated primarily by the business-type activities of the City (Public Works Trust Fund loans and Department of Ecology Water Pollution Control Revolving Fund Loan).

During the year, the City retired \$12,700,982 or 14.9 percent of the beginning outstanding borrowed debt balance and did not add to long-term debt borrowing for a net decrease of \$1,898,120.

**Outstanding Borrowings**  
(in \$1,000's)

	Governmental		Business-Type		Totals		Percentage Change
	Activities		Activities				
	2015	2014	2015	2014	2015	2014	
General obligation bonds	\$530	\$815	\$ -	\$ -	\$530	\$815	-35.0%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	-	-	3,424	3,680	3,424	3,680	-7.0%
Capital leases	-	32	-	-	-	32	-100.0%
Bank and other loans	-	-	6,849	8,174	6,849	8,174	-16.2%
<b>Total</b>	<b>\$530</b>	<b>\$847</b>	<b>\$10,273</b>	<b>\$11,854</b>	<b>\$10,803</b>	<b>\$12,701</b>	<b>-14.9%</b>

The debt per capita was approximately \$395.55, which is substantially below the national average.

See Note 10 for additional information about the City's long-term debt.

**Economic Conditions Affecting the City**

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Since sales taxes are considered an "elastic" revenue stream, tax collections are higher in a flourishing economy and are lower in a depressed economy. The City of Pullman is not considered a retail center, but has experienced higher than average sales tax collections in 2013 and 2014, but decreased in 2015 due to the slowing of construction projects. The City of Pullman's sales tax collections are directly affected by the levels of new construction. Based on the strong building permit issuances in 2014, and increasing scheduled construction on the Washington State University campus, sales tax collections increased 14.6% from 2013 to 2014, but decreased 3.7 percent from 2014 to 2015. In 2016, the City of Pullman will benefit from increased building at Washington State University on sales taxable projects, as well as, the Pullman School District building projects. The City of Pullman is expected to continue to face challenges from significant increases to medical insurance premiums.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Office of Finance, 325 S.E. Paradise Street, Pullman, WA 99163.

**City of Pullman**  
**Statement of Net Position**  
**December 31, 2015**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 12,320,998	\$ 14,539,031	\$ 26,860,029
Investments	2,327,230	3,781,448	6,108,678
Receivables (net of allowance for uncollectibles)	1,002,737	946,063	1,948,800
Due from other government units	281,920	1,599,202	1,881,122
Internal balances	(1,594,084)	1,594,084	-
Inventories	350,289	366,977	717,266
Prepays	48,966	20,097	69,063
Deferred charges	-	-	-
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	316,655	10,870	327,525
Investments	-	-	-
Intergovernmental receivable	-	-	-
Permanently restricted:			
Cash and cash equivalents	81,686	-	81,686
Investments	2,921,611	-	2,921,611
Receivables	17,305	-	17,305
Capital assets (net of accumulated depreciation):			
Land	1,306,230	996,638	2,302,868
Buildings and system	3,416,116	20,119,249	23,535,365
Improvements other than buildings	3,387,621	21,108,258	24,495,879
Machinery and equipment	3,165,806	15,174,122	18,339,928
Infrastructure	22,619,573	-	22,619,573
Construction in progress	2,626,417	5,526,983	8,153,400
Capital assets (net of accumulated depreciation):			
Net pension asset	1,572,471	549,336	2,121,807
Total assets	<u>56,169,547</u>	<u>86,332,358</u>	<u>142,501,905</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	<u>1,197,923</u>	<u>418,490</u>	<u>1,616,413</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	400,278	284,971	685,249
Matured long term debt	-	-	-
Custodial deposits	569,100	-	569,100
Taxes payable	-	-	-
Accrued interest payable	-	53,375	53,375
Accrued wages and benefits	1,170,267	411,116	1,581,383
Unearned revenue	291,737	26,497	318,234
Liabilities payable from restricted assets	-	11,124	11,124
Net OPEB obligation - due within one year	187,854	-	187,854
Long term debt - due within one year	260,000	1,178,643	1,438,643
Noncurrent liabilities:			
Compensated absences	663,747	172,906	836,653
Net OPEB obligation - due in more than one year	1,754,938	-	1,754,938
Long term debt - due in more than one year	270,000	9,094,219	9,364,219
Capital leases	-	-	-
Net pension liability	4,999,588	1,746,584	6,746,172
Total liabilities	<u>10,567,509</u>	<u>12,979,435</u>	<u>23,546,944</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	<u>1,206,579</u>	<u>421,513</u>	<u>1,628,092</u>
<b>NET POSITION</b>			
Net investment in capital assets	35,991,763	52,652,388	88,644,151
Restricted for:			
Highways and streets	1,518,927	-	1,518,927
Culture and recreation	1,627,894	-	1,627,894
Public safety	1,750	-	1,750
Debt service	-	700,000	700,000
Perpetual care:			
Expendable	-	-	-
Nonexpendable	3,288,917	-	3,288,917
Other purposes	360,793	-	360,793
Unrestricted	<u>2,803,338</u>	<u>19,997,512</u>	<u>22,800,850</u>
Total net position	<u>\$ 45,593,382</u>	<u>\$ 73,349,900</u>	<u>\$ 118,943,282</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman  
Statement of Activities  
For the Year Ended December 31, 2015**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,131,719	\$ 599,882	\$ 390,505	\$ -	\$ (1,141,332)	\$ -	\$ (1,141,332)
Public safety	13,490,013	590,284	1,272,023	-	(11,627,706)	-	(11,627,706)
Highways and streets	1,735,475	897,224	-	1,106,238	267,987	-	267,987
Culture and recreation	5,501,970	1,184,028	167,466	-	(4,150,476)	-	(4,150,476)
Interest on long-term debt	69,214	-	-	-	(69,214)	-	(69,214)
Total governmental activities	22,928,391	3,271,418	1,829,994	1,106,238	(16,720,741)	-	(16,720,741)
<b>Business-type activities:</b>							
Utilities	9,553,294	12,408,286	88,016	639,360	-	3,582,368	3,582,368
Transit	4,323,682	3,284,649	643,101	-	-	(395,932)	(395,932)
Total business-type activities	13,876,976	15,692,935	731,117	639,360	-	3,186,436	3,186,436
<b>Total primary government</b>	<b>\$ 36,805,367</b>	<b>\$ 18,964,353</b>	<b>\$ 2,561,111</b>	<b>\$ 1,745,598</b>	<b>(16,720,741)</b>	<b>3,186,436</b>	<b>(13,534,305)</b>
<b>General revenues:</b>							
Property taxes					7,178,236	-	7,178,236
Sales taxes					4,336,017	-	4,336,017
Utility taxes					3,822,372	-	3,822,372
Business taxes					485,603	-	485,603
Motor vehicle fuel taxes					662,082	-	662,082
Excise taxes					405,337	-	405,337
Other taxes					995,822	-	995,822
Unrestricted investment earnings					132,239	37,783	170,022
Other revenues					48,879	347	49,226
Transfers					4,475	(4,475)	-
Total general revenues and transfers					18,071,062	33,655	18,104,717
Change in net position					1,350,321	3,220,091	4,570,412
Prior period adjustments					3,050,976	-	3,050,976
Cumulative effect of a change in accounting principles					(3,719,348)	(1,299,337)	(5,018,685)
Net position - beginning					44,911,433	71,429,146	116,340,579
Net position - ending					\$ 45,593,382	\$ 73,349,900	\$ 118,943,282

The notes to the financial statements are an integral part of this statement.

**City of Pullman  
Balance Sheet  
Governmental Funds  
December 31, 2015**

	General	Streets	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Cash and cash equivalents	\$ 3,389,879	\$ 3,615,505	\$ 2,383,608	\$ 9,388,992
Cash with fiscal agent	-	-	-	-
Investments	1,827,230	-	2,921,611	4,748,841
Interest receivable	-	-	17,305	17,305
Receivables (net of allowance for uncollectibles)	417,260	86,139	255	503,654
Taxes receivable	257,276	-	34,461	291,737
Other current receivables	268,714	-	-	268,714
Interfund loans	120,000	-	-	120,000
Due from other governmental units	129,669	29,834	2,417	161,920
Inventories	-	-	-	-
Prepaid items	11,695	-	-	11,695
Intergovernmental receivable - restricted	-	-	-	-
Total assets	<u>6,421,723</u>	<u>3,731,478</u>	<u>5,359,657</u>	<u>15,512,858</u>
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 6,421,723</u>	<u>\$ 3,731,478</u>	<u>\$ 5,359,657</u>	<u>\$ 15,512,858</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 136,806	\$ 115,634	\$ 37,947	290,387
Other accrued liabilities	-	-	-	-
Accrued wages and benefits	1,018,449	34,348	5,213	1,058,010
Taxes payable	-	-	-	-
Custodial accounts	26,135	-	-	26,135
Due to other funds	-	-	-	-
Customer deposits	542,965	-	-	542,965
Matured bonds payable	-	-	-	-
Unearned revenue	257,276	-	34,461	291,737
Liabilities payable from restricted assets	-	-	-	-
Total liabilities	<u>1,981,631</u>	<u>149,982</u>	<u>77,621</u>	<u>2,209,234</u>
Deferred inflows of resources	-	-	-	-
Fund balances:				
Nonspendable	11,695	-	-	11,695
Nonspendable permanent endowment	-	-	3,020,602	3,020,602
Restricted	15,866	1,518,927	2,242,886	3,777,679
Committed	-	1,740,736	-	1,740,736
Assigned	-	321,833	18,548	340,381
Unassigned	4,412,531	-	-	4,412,531
Total fund balances	<u>4,440,092</u>	<u>3,581,496</u>	<u>5,282,036</u>	<u>13,303,624</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,421,723</u>	<u>\$ 3,731,478</u>	<u>\$ 5,359,657</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,020,834
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	6,478,390
Pension costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	(3,129,330)
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(3,080,136)
Net position of governmental activities	<u>\$ 45,593,382</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2015**

	General	Streets	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,396,448	\$ -	\$ 781,788	\$ 7,178,236
Sales	4,336,017	-	-	4,336,017
Utility	2,587,263	1,235,109	-	3,822,372
Business	-	-	485,603	485,603
Motor vehicle fuel	-	662,082	-	662,082
Excise	103,937	270,110	31,290	405,337
Other	995,822	-	-	995,822
Licenses and permits	560,931	750	-	561,681
Intergovernmental	467,125	758,066	-	1,225,191
Charges for services	3,633,167	101,009	8,276	3,742,452
Fines	74,222	-	-	74,222
Investment earnings	90,150	298	36,574	127,022
Contributions and donations	18,920	348,172	40,015	407,107
Facility rentals	87,976	-	-	87,976
Other miscellaneous revenues	45,704	11,315	-	57,019
Total revenues	<u>19,397,682</u>	<u>3,386,911</u>	<u>1,383,546</u>	<u>24,168,139</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,823,932	-	-	2,823,932
Public safety	13,103,106	-	12,111	13,115,217
Highway and streets	-	1,544,466	-	1,544,466
Transportation	-	-	-	-
Economic and physical development	-	-	-	-
Culture and recreation	4,480,957	-	834,829	5,315,786
Debt service:				
Principal	-	-	285,000	285,000
Debt issuance	-	-	-	-
Interest	-	-	34,635	34,635
Debt service costs	-	-	850	850
Capital outlay:				
Highway and streets	-	-	-	-
Improvements	-	1,993,083	744,862	2,737,945
Total expenditures	<u>20,407,995</u>	<u>3,537,549</u>	<u>1,912,287</u>	<u>25,857,831</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,010,313)</u>	<u>(150,638)</u>	<u>(528,741)</u>	<u>(1,689,692)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	48,879	-	-	48,879
Transfers in	-	-	257,431	257,431
Transfers out	(5,083)	(33,468)	(223,963)	(262,514)
Capital leases	(33,729)	-	-	(33,729)
Prior year adjustments and change in reserves	-	-	3,050,976	3,050,976
Total other financing sources and uses	<u>10,067</u>	<u>(33,468)</u>	<u>3,084,444</u>	<u>3,061,043</u>
Net change in fund balances	<u>(1,000,246)</u>	<u>(184,106)</u>	<u>2,555,703</u>	<u>1,371,351</u>
Fund balances - beginning	5,440,338	3,765,602	2,726,333	11,932,273
Fund balances - ending	<u>\$ 4,440,092</u>	<u>\$ 3,581,496</u>	<u>\$ 5,282,036</u>	<u>\$ 13,303,624</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**For the Year Ended December 31, 2015**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds		\$ 1,371,351
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	3,330,543	
Depreciation	(1,378,925)	
Disposals	<u>(74)</u>	1,951,544

The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net position.

Change in compensated absences payables	(78,243)	
Prior period adjustments	(3,050,976)	
Cumulative effect of a change in accounting principles	<u>331,735</u>	(2,797,484)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal; of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Repayment of the principal of long term debt	285,000	
Repayment of capital leases	<u>32,457</u>	317,457

Change in net other postemployment benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(413,894)
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Change in pension benefits reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	258,283
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Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Internal service funds change in net position	716,287	
Change in adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>(53,223)</u>	<u>663,064</u>

Change in net position of governmental activities	<u>\$ 1,350,321</u>
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The notes to the financial statements are an integral part of this statement.

City of Pullman  
General FundStatement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,305,000	6,305,000	\$ 6,396,448	\$ 91,448
Sales	4,100,000	4,100,000	4,336,017	236,017
Utility	2,397,000	2,397,000	2,587,263	190,263
Excise	61,000	61,000	103,937	42,937
Other	885,000	885,000	995,822	110,822
Licenses and permits	439,250	439,250	560,931	121,681
Intergovernmental	416,900	416,900	467,125	50,225
Charges for services	3,772,212	3,772,212	3,633,167	(139,045)
Fines	39,500	39,500	74,222	34,722
Investment earnings	35,000	35,000	90,150	55,150
Contributions and donations	20,847	20,847	18,920	(1,927)
Facility rentals	77,000	77,000	87,976	10,976
Other miscellaneous revenues	39,350	39,350	45,704	6,354
Total revenues	18,588,059	18,588,059	19,397,682	809,623
<b>EXPENDITURES</b>				
Current:				
General government:				
Council	196,698	196,698	157,617	39,081
Mayor & Supervisor	197,805	197,805	192,534	5,271
Attorney	84,500	84,500	84,000	500
Personnel	114,104	114,104	111,985	2,119
Finance and administration	819,943	829,943	776,146	53,797
Other - unclassified	289,263	1,539,263	1,501,650	37,613
Total general government	1,702,313	2,962,313	2,823,932	138,381
Public safety:				
Police	6,274,516	6,274,516	6,125,601	148,915
Fire	6,298,729	6,521,933	6,486,732	35,201
Inspection	424,918	548,186	490,773	57,413
Total public safety	12,998,163	13,344,635	13,103,106	241,529
Culture and recreation	4,744,618	4,819,618	4,480,957	338,661
Total expenditures	19,445,094	21,126,566	20,407,995	718,571
Excess of revenues over expenditures	(857,035)	(2,538,507)	(1,010,313)	1,528,194
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	-	-	48,879	48,879
Transfers in	-	-	-	-
Transfers out	(12,153)	(12,153)	(5,083)	7,070
Capital leases	(33,729)	(33,729)	(33,729)	-
Prior year adjustments and change in reserves	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	(45,882)	(45,882)	10,067	55,949
Net change in fund balances	(902,917)	(2,584,389)	(1,000,246)	1,584,143
Fund balances - beginning	5,440,338	5,440,338	5,440,338	-
Fund balances - ending	\$ 4,537,421	\$ 2,855,949	\$ 4,440,092	\$ 1,584,143

The notes to the financial statements are an integral part of this statement.

City of Pullman  
Street FundStatement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Utility	1,120,000	1,120,000	1,235,109	115,109
Business	-	-	-	-
Motor vehicle fuel	600,000	600,000	662,082	62,082
Excise	170,000	170,000	270,110	100,110
Other	-	-	-	-
Licenses and permits	400	400	750	350
Intergovernmental	700,463	700,463	758,066	57,603
Charges for services	2,000	2,000	101,009	99,009
Fines	-	-	-	-
Special assessments	-	-	-	-
Investment earnings	325	325	298	(27)
Contributions and donations	275,436	275,436	348,172	72,736
Facility rentals	-	-	-	-
Other miscellaneous revenues	8,400	8,400	11,315	2,915
Total revenues	<u>2,877,024</u>	<u>2,877,024</u>	<u>3,386,911</u>	<u>509,887</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Highway and streets	1,771,164	1,771,664	1,544,466	227,198
Transportation	-	-	-	-
Economic and physical development	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Debt service costs	-	-	-	-
Capital outlay:				
Highway and streets	-	-	-	-
Improvements	2,133,512	2,133,512	1,993,083	140,429
Total expenditures	<u>3,904,676</u>	<u>3,905,176</u>	<u>3,537,549</u>	<u>367,627</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,027,652)</u>	<u>(1,028,152)</u>	<u>(150,638)</u>	<u>877,514</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term debt	-	-	-	-
Insurance recoveries	1,000	1,000	-	(1,000)
Transfers in	100,000	100,000	-	(100,000)
Transfers out	(36,470)	(36,470)	(33,468)	3,002
Prior year adjustments and change in reserves	-	-	-	-
Total other financing sources and uses	<u>64,530</u>	<u>64,530</u>	<u>(33,468)</u>	<u>(97,998)</u>
Net change in fund balances	<u>(963,122)</u>	<u>(963,622)</u>	<u>(184,106)</u>	<u>779,516</u>
Fund balances - beginning	<u>3,765,602</u>	<u>3,765,602</u>	<u>3,765,602</u>	-
Fund balances - ending	<u>\$ 2,802,480</u>	<u>\$ 2,801,980</u>	<u>\$ 3,581,496</u>	<u>\$ 779,516</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman  
Statement of Net Position  
Proprietary Funds  
December 31, 2015**

**Business-type Activities-Enterprise Funds**

	<b>Utility Current Year</b>	<b>Transit Current Year</b>	<b>Totals</b>	<b>Governmental Activities- Internal Service Funds</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 14,513,961	\$ 25,070	\$ 14,539,031	\$ 3,330,347
Cash with fiscal agent	-	-	-	-
Investments	3,781,448	-	3,781,448	-
Interest receivable	12,359	-	12,359	2,022
Accounts receivable	841,185	6,780	847,965	3,455
Due from other funds	-	-	-	-
Other current receivable	-	85,739	85,739	-
Intergovernmental receivable	594,374	1,004,828	1,599,202	-
Inventories	366,977	-	366,977	350,289
Prepaid items	16,446	3,651	20,097	37,271
Total current assets	<u>20,126,750</u>	<u>1,126,068</u>	<u>21,252,818</u>	<u>3,723,384</u>
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Customer deposits	10,870	-	10,870	-
Investments	-	-	-	500,000
Total restricted assets	<u>10,870</u>	<u>-</u>	<u>10,870</u>	<u>500,000</u>
Deferred charges	-	-	-	-
Capital assets:				
Land	996,638	-	996,638	-
Buildings and system	24,066,867	2,110,721	26,177,588	1,198,966
Improvements other than buildings	29,428,729	145,165	29,573,894	-
Machinery and equipment	23,299,513	8,375,479	31,674,992	6,912,864
Construction in progress	5,526,983	-	5,526,983	580,738
Less accumulated depreciation	(26,981,759)	(4,043,086)	(31,024,845)	(4,191,639)
Total capital assets (net of accumulated depreciation)	<u>56,336,971</u>	<u>6,588,279</u>	<u>62,925,250</u>	<u>4,500,929</u>
Net pension asset	282,413	266,923	549,336	140,251
Total noncurrent assets	<u>56,630,254</u>	<u>6,855,202</u>	<u>63,485,456</u>	<u>5,141,180</u>
Total assets	<u>76,757,004</u>	<u>7,981,270</u>	<u>84,738,274</u>	<u>8,864,564</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	215,145	203,345	418,490	106,845

The notes to the financial statements are an integral part of this statement.

**City of Pullman  
Statement of Net Position  
Proprietary Funds  
December 31, 2015**

**Business-type Activities-Enterprise Funds**

	Utility Current Year	Transit Current Year	Totals	Governmental Activities- Internal Service Funds
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	151,916	13,055	164,971	109,891
Customer deposits payable	11,124	-	11,124	-
Matured long term debt	-	-	-	-
Accrued wages and benefits	222,186	188,930	411,116	112,257
Unearned Revenues	26,497	-	26,497	-
Accrued interest payable	53,375	-	53,375	-
Due to other funds	-	120,000	120,000	-
Long term debt - current portion	1,178,643	-	1,178,643	-
Capital leases payable - current	-	-	-	-
Total current liabilities	<u>1,643,741</u>	<u>321,985</u>	<u>1,965,726</u>	<u>222,148</u>
Noncurrent liabilities:				
Long term debt	5,931,102	-	5,931,102	-
Revenue bonds payable (net of unamortized discounts)	3,163,117	-	3,163,117	-
Capital leases payable	-	-	-	-
Compensated absences	111,720	61,186	172,906	56,403
Due to other governments	-	-	-	-
Total noncurrent liabilities	<u>9,205,939</u>	<u>61,186</u>	<u>9,267,125</u>	<u>56,403</u>
Net pension liability	897,916	848,668	1,746,584	445,922
Total liabilities	<u>11,747,596</u>	<u>1,231,839</u>	<u>12,979,435</u>	<u>724,473</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	216,699	204,814	421,513	107,617
<b>NET POSITION</b>				
Net investment in capital assets	46,064,109	6,588,279	52,652,388	4,500,929
Restricted for debt service	700,000	-	700,000	-
Unrestricted	18,243,745	159,683	18,403,428	3,638,390
Total net position	<u>\$ 65,007,854</u>	<u>\$ 6,747,962</u>	<u>71,755,816</u>	<u>\$ 8,139,319</u>
			Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>1,594,084</u>
			Net position of business-type activities	<u>\$ 73,349,900</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2015**

	<u>Business-type Activities-Enterprise Funds</u>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Utility Current Year</b>	<b>Transit Current Year</b>	<b>Totals</b>	
<b>Operating revenues:</b>				
Charges for sales and services				
Water and Sewer sales	\$ 10,600,794	\$ -	\$ 10,600,794	\$ -
Sewer charges pledged as security for revenue bonds	-	-	-	-
Tap fees - unpledged	450,051	-	450,051	-
Transit sales	-	2,049,541	2,049,541	-
Other services	1,111,143	-	1,111,143	4,596,608
Total operating revenues	<u>12,161,988</u>	<u>2,049,541</u>	<u>14,211,529</u>	<u>4,596,608</u>
<b>Operating expenses:</b>				
Costs of sales and services	7,318,309	3,486,518	10,804,827	3,130,015
Administration	-	320,708	320,708	-
Depreciation	1,992,615	487,751	2,480,366	463,298
Total operating expenses	<u>9,310,924</u>	<u>4,294,977</u>	<u>13,605,901</u>	<u>3,593,313</u>
Operating income	<u>2,851,064</u>	<u>(2,245,436)</u>	<u>605,628</u>	<u>1,003,295</u>
<b>Nonoperating revenues (expenses):</b>				
Intergovernmental	88,016	1,875,209	1,963,225	-
Investment earnings	37,783	-	37,783	5,217
Interest expense	(324,298)	-	(324,298)	-
Insurance recoveries	-	347	347	-
Gain (Loss) on sale of fixed assets	-	-	-	(8,625)
Other nonoperating revenues (expenses)	246,298	3,000	249,298	38,577
Total nonoperating revenue (expenses)	<u>47,799</u>	<u>1,878,556</u>	<u>1,926,355</u>	<u>35,169</u>
Income before contributions and transfers	2,898,863	(366,880)	2,531,983	1,038,464
Cumulative effect of a change in accounting principles	(667,987)	(631,350)	(1,299,337)	(331,735)
Capital contributions	639,360		639,360	-
Prior year adjustments	-	-	-	-
Transfers in	-	-	-	9,558
Transfers out	(4,475)	-	(4,475)	-
Change in net position	<u>2,865,761</u>	<u>(998,230)</u>	<u>1,867,531</u>	<u>716,287</u>
 Total net position - beginning	 62,142,093	 7,746,192		 7,423,032
Total net position - ending	<u>\$ 65,007,854</u>	<u>\$ 6,747,962</u>		<u>\$ 8,139,319</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>53,223</u>	
Change in net position of business-type activities			<u>\$ 1,920,754</u>	

The notes to the financial statements are an integral part of this statement.

**City of Pullman**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2015**

	<u>Business-type Activities-Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 14,323,759	\$ 1,745,106	\$ 16,068,865	
Receipts from interfund services provided	-	-	-	\$ 5,364,609
Payments to suppliers and interfund services	(6,271,727)	(1,526,905)	(7,798,632)	(2,640,850)
Payments to employees	(2,486,108)	(2,355,721)	(4,841,829)	(1,299,479)
Net cash provided (used) by operating activities	<u>5,565,924</u>	<u>(2,137,520)</u>	<u>3,428,404</u>	<u>1,424,280</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(4,475)	-	(4,475)	9,558
Transfers from other funds	-	-	-	-
Financing available for operating purposes	-	-	-	-
Taxes available for operating purposes	-	1,235,109	1,235,109	-
Proceeds from nonoperating	334,314	643,447	977,761	38,577
Net cash provided (used) by noncapital and related financing activities	<u>329,839</u>	<u>1,878,556</u>	<u>2,208,395</u>	<u>48,135</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital debt	-	-	-	-
Acquisition and construction of capital assets	(781,825)	(9,829)	(791,654)	(819,288)
Principal paid on capital debt	(1,580,663)	-	(1,580,663)	-
Interest paid on capital debt	(324,298)	-	(324,298)	-
Proceeds from sales of capital assets	-	-	-	2,800
Net cash provided (used) by capital and related financing activities	<u>(2,686,786)</u>	<u>(9,829)</u>	<u>(2,696,615)</u>	<u>(816,488)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	3,000,000	-	3,000,000	-
Purchases of investments	(3,501,168)	-	(3,501,168)	(500,000)
Premiums and discounts	17,710	-	17,710	-
Interest and dividends received	37,783	-	37,783	5,217
Net cash provided (used) by investing activities	<u>(445,675)</u>	<u>-</u>	<u>(445,675)</u>	<u>(494,783)</u>
Net increase in cash and cash equivalents	<u>2,763,302</u>	<u>(268,793)</u>	<u>2,494,509</u>	<u>161,144</u>
Cash and cash equivalents, January 1	<u>11,761,529</u>	<u>293,863</u>	<u>12,055,392</u>	<u>3,169,203</u>
Cash and cash equivalents, December 31	<u>\$ 14,524,831</u>	<u>\$ 25,070</u>	<u>\$ 14,549,901</u>	<u>\$ 3,330,347</u>

The notes to the financial statements are an integral part of this statement.

**City of Pullman**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2015**

	<u>Business-type Activities-Enterprise Funds</u>			<b>Governmental Activities- Internal Service Funds</b>
	<u>Utility Current Year</u>	<u>Transit Current Year</u>	<u>Totals</u>	
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income	\$ 2,851,064	\$ (2,245,436)	\$ 605,628	\$ 1,003,295
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,992,615	487,751	2,480,366	463,298
(Increase) decrease in accounts receivable	(31,415)	(6,426)	(37,841)	-
(Increase) decrease in current receivable	3,000	473	3,473	14,056
(Increase) decrease in intergovernmental receivable	781,112	(441,828)	339,284	-
(Increase) decrease in interest receivable	(1,083)	-	(1,083)	(2,022)
(Increase) decrease in inventories	10,222	-	10,222	(23,132)
(Increase) decrease in prepaid items	(493)	(286)	(779)	(14,218)
(Increase) decrease in net pension asset	10,831	10,237	21,068	5,379
Increase (decrease) in customer deposits	-	-	-	-
Increase (decrease) in accounts payable	15,922	5,676	21,598	(5,576)
Increase (decrease) in interest payable	(31,824)	-	(31,824)	-
Increase (decrease) in customer deposits	9,404	-	9,404	-
Increase (decrease) in other accrued liabilities	-	120,000	120,000	-
Increase (decrease) in advance revenues	4,016	-	4,016	-
Increase (decrease) in compensated absences payable	(4,213)	839	(3,374)	9,498
Increase (decrease) in intergovernmental payables	-	-	-	-
Increase (decrease) in net pension liability	(61,761)	(58,373)	(120,134)	(30,671)
Increase (decrease) in accrued wages and benefits	18,527	(10,147)	8,380	4,373
Total adjustments	<u>2,714,860</u>	<u>107,916</u>	<u>2,822,776</u>	<u>420,985</u>
Net cash provided (used) by operating activities	<u>\$ 5,565,924</u>	<u>\$ (2,137,520)</u>	<u>\$ 3,428,404</u>	<u>\$ 1,424,280</u>

**NON-CASH ACTIVITIES:**

Assets contributed from developers and customers \$ 639,360

The notes to the financial statements are an integral part of this statement.

**City of Pullman  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2015**

		<b>Airport Agency Fund</b>
<b>ASSETS</b>		
Cash	\$	3,885,514
Receivables		1,768,107
Interest receivable		-
Investments, at fair value:		
U.S. Government securities		-
Total investments		-
Total assets		<u>5,653,621</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		<u>-</u>
<b>LIABILITIES</b>		
Accounts payable		-
Custodial accounts		5,653,621
Total liabilities		<u>5,653,621</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		<u>-</u>
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	\$	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Pullman have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* (GASB #34). This Statement provides for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2003 (for Phase 2 governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). As permitted by GASB #34, the City of Pullman delayed the implementation of the infrastructure reporting requirement to the fiscal year ending in 2007. The City implemented the basic model for fiscal year 2003 and has implemented the infrastructure-related portion for the fiscal year ending 2007. The Financial Statements and the Management Discussion and Analysis include the required infrastructure reporting and related adjustments and entries.

The City of Pullman has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011. The City's fund balance classification policies and procedures are as follows:

*The Nonspendable* fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* fund balances have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, donors or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

*Committed* fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the City of Pullman Council (i.e., a resolution or ordinance), the City's highest level of decision-making authority. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

*Assigned* fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Informal Council action is authorized to assign unexpended funds.

*Unassigned* fund balance is the residual classification for the General Fund. Other governmental funds cannot report a positive unassigned balance but can report a negative unassigned fund if expenditures incurred for specific purposes exceed the amount restricted or committed to those purposes.

For classification of governmental fund balances, the City considers an expenditure to be made from the most restrictive account resource (i.e., restricted, committed, assigned and unassigned in that order) when more than one fund balance classification is available for use.

Implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* – This statement’s primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics: (1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable, (2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, (3) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement: (1) Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement), (2) Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer’s share of the pooled assets is legally available to pay the benefits of only its employees, (3) Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement

also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

**A. Reporting Entity**

The City of Pullman was incorporated on April 11, 1888, and operates under the laws of the state of Washington applicable to a non-charter code City with a mayor-council form of government. As required by the generally accepted accounting principles, the financial statements present the City of Pullman - the primary government.

The Pullman-Moscow Airport provides airport services to the region surrounding the City of Pullman. This activity is neither directly controlled nor dependent upon the City. It is directed by a board of directors composed of representatives from the City of Pullman, Washington State University, the City of Moscow, Idaho and Latah County, Idaho, and derives some financial support from each of these entities and the Port of Whitman. It is not a separate taxing authority. The interlocal agreement establishing this activity directs the City of Pullman to maintain the financial records and reports as required by the laws of the State of Washington. The combined financial statements therefore also include the Pullman-Moscow Airport Agency fund. The Pullman-Moscow Airport also issues its own separate and distinct financial statements. To obtain these separately issued financial statements contact the City's Office of Finance, 325 S.E. Paradise Street, Pullman, WA 99163.

Blended Component Unit

The elected 7-member council of the City of Pullman serves in an ex-officio capacity as the board of metropolitan park commissioners for the City of Pullman Metropolitan Park District. Although the District is legally separated from the City, the District is reported as if it were part of primary government because its sole purpose is to provide for management, maintenance and improvement of the parks and recreational facilities within the City of Pullman boundaries.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates how the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes, utility taxes, and other derived tax revenues are accrued in the period in which the underlying exchange transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes and state distributed taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, state distributed taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as current fiscal period revenues. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted in another fund.

The **Arterial and Street Funds** (presented together as one major fund) are responsible for the maintenance of all city streets, street lighting, and bridges.

The City reports the following non-major governmental funds:

The **Other Governmental Funds** include a permanent endowment fund account for contributions and donations from private sources to be expended for improvements and maintenance of the Lawson Gardens Park.

The City reports the following major proprietary funds:

The **Utility and Utility Capital Projects Funds** account for all revenues derived from and expenses incurred in the operation and construction of the water and stormwater systems. The fund also accounts for all revenue derived from and expenses incurred in the operation and construction of the wastewater treatment plant and the sewer system of the City.

The **Transit Fund** accounts for all revenues derived from and expenses incurred in the operation of the public transit system.

Additionally, the City reports the following fund types:

Internal service funds account for the equipment rental division and information systems management, and government building maintenance provided to other departments of the City on a cost reimbursement basis.

Fiduciary funds include the Pullman-Moscow Airport Agency fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sewer and water functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

## **D. Budgets and Budgetary Accounting**

### **1. Scope of Budget**

Annual appropriated budgets are adopted for all governmental fund types and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers broken down by department for all budgeted funds, but the financial statements include budgetary comparisons for only the two major Governmental Funds: General and Arterial/Streets. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the fund level broken down by department, except in the General Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual department functions and activities by object class.

Appropriations for general and special revenue funds lapse at year-end.

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### **2. Procedures for Adopting the Original Budget**

The City's budget procedures are mandated by RCW 35A.33. The steps in the budget process are as follows:

- a. Prior to November 1 the mayor submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by City departments during preceding months and balanced with revenue estimates made by the Finance Director.
- b. The council conducts public hearings on the proposed budget in November and December.
- c. The council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.

### **3. Amending the Budget**

The mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

When the city council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund broken down by department it may do so by ordinance approved by one more than the majority after holding a public hearing.

The budget amounts shown in the financial statements are the original and final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

4. Excess of Expenditures Over Appropriations

There were no excess of expenditures over appropriations.

**E. Assets, Liabilities, Fund Balance and Net Position**

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. On December 31, 2015, the finance director was holding \$16,043,478 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is credited to the General Fund.

For purposes of the statement of cash flows, the city considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Temporary Investments (See Note 4)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered. (See Note 1-C).

4. Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” A separate schedule of interfund loans receivable and payable is furnished in Note 15.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the LIFO method.

7. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service including current and delinquent special assessments receivable in enterprise funds. The current portion of related liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements, if any, are described in Note 10.

The restricted assets of the Governmental funds composed of the following:

Cash and Investments – Temporary Restrictions	\$ 316,655
Cash, Investments and Receivable – Permanent Restriction	3,020,602
Total Restricted Assets	<u>\$ 3,337,257</u>

The restricted assets of the Proprietary funds are composed of the following:

Cash and Investments – Customer Deposits	\$ 10,870
Total Restricted Assets	<u>\$ 10,870</u>

8. Capital Assets (See Note 6)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Pursuant to GASB Statement No. 34, an extended period of deferral (FY 2007 for Phase 2 governments) was available for the requirement to record and depreciate infrastructure assets acquired before the implementation date. The City fully met this requirement during fiscal year 2007. Significant adjustments have occurred relating to this requirement. This category has become the largest asset class of the City and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, traffic signals, sidewalks, etc.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

	<b>Years</b>
Buildings and Improvements	10-60
Infrastructure	40
Light/Heavy Trans. Equip.	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

Property, plant and equipment assets within the governmental activity funds except the equipment rental division fund are depreciated for a full year regardless of the month the asset was put in service. Property, plant and equipment assets within the business-type activity funds and the equipment rental division fund are depreciated partial years depending on the month the asset was put in service.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

9. Other Assets and Debits

These accounts reflect future resources needed to retire general long-term debt principal and amounts currently available in debt service or other funds to retire general long-term debt.

10. Custodial Accounts

This account reflects the liability for net monetary assets being held by the City in its trustee or agency capacity.

11. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 800 hours. Outstanding sick leave is not payable upon resignation, retirement or death.

12. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

13. Long-term Debt (See Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

14. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. (See Note 1-C)

15. Other Credits

This account is used to account for gains that will be amortized over succeeding fiscal periods in proprietary funds.

16. Fund Equity

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

## 17. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## F. **Other**

### 1. Stabilization Arrangements

The City established two stabilization arrangements. The rate stabilization account balance at December 31, 2015 is \$350,000. The debt service reserve account balance at December 31, 2015 is \$350,000. The total \$700,000 is disclosed as restricted debt service on the Statement of Net Position.

The two stabilization arrangements were approved by Council Ordinance number 14-3 and Ordinance number 09-20 each establishing the debt service reserve account and the rate stabilization account. The debt service reserve account is maintained for the purpose of securing the payment of the principal of and interest on the Parity Bonds. The rate stabilization account is established to stabilize net revenue. The City may at any time deposit into the rate stabilization account amounts from gross revenue and any other money received by the Waterworks Utility and available to be used for that purpose, excluding principal proceeds of any future parity bonds. The City's Treasurer may at any time withdraw money from the rate stabilization account for inclusion in the net revenue for the current fiscal year of the Waterworks Utility, except that the total amount withdrawn from the rate stabilization account in any calendar year may not exceed the total debt service of the Waterworks Utility in that year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the calendar year for which the deposit or withdrawal will be included as net revenue.

### 2. Budgeting, Accounting and Reporting System (BARS)

The State of Washington's Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS) manual. The purpose of this manual is to provide uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds' balance sheet includes a reconciliation between fund balance – total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. The reconciliation is as follows:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	\$1,306,230	
Buildings and systems	5,681,348	
Improvements other than buildings	5,841,025	
Machinery and equipment	2,597,403	
Infrastructure	32,873,331	
Construction in progress	2,045,679	
Accumulated depreciation	(18,324,182)	\$32,020,834
Internal service funds are used by management to charge the costs of fleet management and management of information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
Internal service funds total net position	\$8,139,319	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(1,594,084)	
Allowance for doubtful accounts	(66,845)	\$6,478,390
Pension costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Net pension asset	\$1,572,471	
Deferred outflows related to pensions	1,197,923	
Net pension liability	(4,999,588)	
Deferred inflows related to pensions	(1,206,579)	
Cumulative effect of a change in accounting principles	331,735	
Internal service funds pension cost	(25,292)	\$(3,129,330)
Long term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Compensated absences	\$(607,344)	
Other employment benefits payable	(1,942,792)	
Long term debt	(530,000)	\$(3,080,136)

**B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

**DEPOSITS**

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**INVESTMENTS**

As required by state law, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All investments are stated at cost plus accrued interest which approximates fair value, as it is the intent of the City to hold all investments until their stated maturities. Also, the interest earned on investments owned by the Cemetery Care Fund is credited to the General Fund, as the operation and maintenance expenditures of the City's cemeteries are included in the General Fund or the Cemetery Expansion Fund for cemetery capital improvements. Other property is shown on the combined balance sheet at cost.

	<b>Fair Value</b>	
	<b>City Owned</b>	
	<b><u>Investments</u></b>	<b><u>Total</u></b>
Repurchase Agreements	\$ -	\$ -
U.S. Government Securities	9,030,289	9,030,289
Bankers' Acceptances	-	-
WA Municipal Obligations	-	-
<b>TOTAL</b>	<b><u>\$9,030,289</u></b>	<b><u>\$9,030,289</u></b>

During the period covered by this financial statement, there were no exceptions to the City's investment policy, nor did the City use reverse repurchase agreements. During this period, the City did not use, hold nor sell any derivatives or similar instruments, nor did the City participate in any securities lending transactions. There were no sales of securities at other than maturity or call dates that resulted in realized gains or losses.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City's total position of \$9,030,289 in investments, \$0 is exposed to custodial credit risk because the investments are held by the City's brokerage firm, which is also the counterparty in those particular securities.

### **NOTE 5 - PROPERTY TAXES**

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

#### Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. The Washington State Constitution and Washington State law in RCW 84.55.010 limit the levy rate.

For 2015 the City levied the following property taxes on an assessed value of \$1,569,845,813 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

<b><u>Purpose of Levy</u></b>	<b><u>Levy Rate per \$1,000</u></b>	<b><u>Total Levy Amount</u></b>
General Government	\$ 3.6000	\$5,651,445
EMS Levy	0.5000	784,923
Special G.O. Bond Levy	<u>0.1816</u>	<u>284,300</u>
<b>TOTALS</b>	<b><u>\$ 4.2816</u></b>	<b><u>\$6,720,668</u></b>

**NOTE 6 - CAPITAL ASSETS**

A summary of changes in capital assets as of December 31, 2015 follows:

	<b><u>Balance</u></b> <b><u>1/1/2015</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Balance</u></b> <b><u>12/31/2015</u></b>
<b>Governmental Activities:</b>				
Capital Assets, Not Being Depreciated:				
Land	\$1,306,230	\$ -	\$ -	\$1,306,230
Construction In Progress	<u>854,710</u>	<u>3,911,282</u>	<u>2,139,575</u>	<u>2,626,417</u>
Total Capital Assets, Not Being Depreciated:	<u>2,160,940</u>	<u>3,911,282</u>	<u>2,139,575</u>	<u>3,932,647</u>
Capital Assets, Being Depreciated:				
Buildings	6,362,271	518,043	-	6,880,314
Other Improvements	5,815,282	25,743	-	5,841,025
Machinery and Equipment	9,411,531	339,103	240,368	9,510,266
Infrastructure	<u>31,378,096</u>	<u>1,495,234</u>	<u>-</u>	<u>32,873,330</u>
Total Capital Assets, Being Depreciated:	<u>52,967,180</u>	<u>2,378,123</u>	<u>240,368</u>	<u>55,104,935</u>
Less Accumulated Depreciation For:				
Buildings	(3,314,254)	(149,944)	-	(3,464,198)
Other Improvements	(2,263,490)	(189,914)	-	(2,453,404)
Machinery and Equipment	(5,912,009)	(661,320)	(228,869)	(6,344,460)
Infrastructure	<u>(9,412,713)</u>	<u>(841,044)</u>	<u>-</u>	<u>(10,253,757)</u>
Total Accumulated Depreciation	<u>(20,902,466)</u>	<u>(1,842,222)</u>	<u>(228,869)</u>	<u>(22,515,819)</u>
Total Capital Assets, Being Depreciated, Net:	<u>32,064,714</u>	<u>535,901</u>	<u>11,499</u>	<u>32,589,116</u>
Governmental Activities Capital Assets, Net:	<b><u>\$34,225,654</u></b>	<b><u>\$4,447,183</u></b>	<b><u>\$2,151,074</u></b>	<b><u>\$36,521,763</u></b>

	<u>Balance</u> <u>1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2015</u>
<b>Business-Type Activities:</b>				
Capital Assets, Not Being Depreciated:				
Land	\$996,638	\$ -	\$ -	\$996,638
Construction In Progress	<u>4,874,369</u>	<u>1,431,014</u>	<u>778,400</u>	<u>5,526,983</u>
Total Capital Assets, Not Being Depreciated:	<u>5,871,007</u>	<u>1,431,014</u>	<u>778,400</u>	<u>6,523,621</u>
Capital Assets, Being Depreciated:				
Plant in Service **	<u>86,648,074</u>	<u>778,400</u>	<u>-</u>	<u>87,426,474</u>
Total Capital Assets, Being Depreciated:	<u>86,648,074</u>	<u>778,400</u>	<u>-</u>	<u>87,426,474</u>
Less Accumulated Depreciation For:				
Plant in Service **	<u>(28,544,479)</u>	<u>(2,480,366)</u>	<u>-</u>	<u>(31,024,845)</u>
Total Accumulated Depreciation	<u>(28,544,479)</u>	<u>(2,480,366)</u>	<u>-</u>	<u>(31,024,845)</u>
Total Capital Assets, Being Depreciated, Net:	<u>58,103,595</u>	<u>(1,701,966)</u>	<u>-</u>	<u>56,401,629</u>
Business-Type Activities Capital Assets, Net:	<u><b>\$63,974,602</b></u>	<u><b>\$(270,952)</b></u>	<u><b>\$778,400</b></u>	<u><b>\$62,925,250</b></u>
<b>Governmental Activities:</b>				
General Government		594,094		
Safety		208,910		
Transportation		844,123		
Culture and Recreation		<u>195,095</u>		
Total Depreciation – Governmental Activities		<u><b>\$1,842,222</b></u>		
<b>Business-Type Activities:</b>				
Water and Sewer		\$1,950,835		
Stormwater		41,780		
Transit		<u>487,751</u>		
Total Depreciation – Business-Type Activities		<u><b>\$2,480,366</b></u>		

**\*\*The caption, Plant in Service, consists of Buildings and system, Improvements other than buildings and Machinery and equipment.**

## **NOTE 7 - PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$6,746,172
Pension assets	\$2,121,807
Deferred outflows of resources	\$1,616,412
Deferred inflows of resources	\$1,628,092
Pension expense/expenditures	\$720,867

### **State Sponsored Pension Plans**

Substantially all City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

#### **A. Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living

adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%

The City’s actual contributions without administration fee to the plan were \$334,195 for the year ended December 31, 2015.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested

in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

\* For employees participating in JBM, the contribution rate was 15.30%

The City’s actual contributions without administration fee to the plan were \$373,567 for the year ended December 31, 2015.

**B. Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is

the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions without administration fee to the plan were \$258,400 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF

Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

## Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

## Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

## Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Dis- count Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$4,630,979	\$3,803,671	\$3,092,261
PERS 2/3	\$8,604,026	\$2,942,501	\$(1,392,316)
LEOFF 1	\$(198,212)	\$(309,826)	\$(404,956)
LEOFF 2	\$1,814,509	\$(1,811,981)	\$(4,540,925)

## Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

## Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a total pension liability of \$4,624,365 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,803,671
PERS 2/3	\$2,942,501
LEOFF 1	\$(309,826)
LEOFF 2	\$(1,811,981)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	\$1,811,981
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	<u>\$170,933</u>
TOTAL	<u>\$1,982,914</u>

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/14</b>	<b>Proportionate Share 6/30/15</b>	<b>Change in Proportion</b>
PERS 1	0.0688%	0.0727%	5.6459%
PERS 2/3	0.0795%	0.0838%	5.5333%
LEOFF 1	0.0257%	0.0257%	0.0428%
LEOFF 2	0.1700%	0.1763%	3.7218%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

### **Pension Expense**

For the year ended December 31, 2015, the City recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$118,292
PERS 2/3	\$727,192
LEOFF 1	\$(61,210)
LEOFF 2	\$(63,407)
<b>TOTAL</b>	<b>\$720,867</b>

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$208,102
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	<u>\$334,195</u>	<u>\$ -</u>
<b>TOTAL</b>	<u><b>\$334,195</b></u>	<u><b>\$208,102</b></u>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$312,788	\$785,509
Changes of assumptions	\$4,741	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$175,997	\$ -
Contributions subsequent to the measurement date	<u>\$366,843</u>	<u>\$ -</u>
<b>TOTAL</b>	<u><b>\$860,369</b></u>	<u><b>\$785,509</b></u>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$52,305
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
<b>TOTAL</b>	<b>\$ -</b>	<b>\$52,305</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$158,669	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$549,021
Changes of assumptions	\$4,779	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$33,155
Contributions subsequent to the measurement date	<u>\$258,400</u>	<u>\$ -</u>
<b>TOTAL</b>	<b><u>\$421,848</u></b>	<b><u>\$582,176</u></b>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>
2016	\$208,182
2017	\$ -
2018	\$ -
2019	\$ -
2020	\$ -
Thereafter	\$ -

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2016	\$40,863
2017	\$40,863
2018	\$40,863
2019	\$16,343
2020	\$ -
Thereafter	\$ -

<b>Year ended December 31:</b>	<b>LEOFF 1</b>
2016	\$52,305
2017	\$ -
2018	\$ -
2019	\$ -
2020	\$ -
Thereafter	\$ -

<b>Year ended December 31:</b>	<b>LEOFF 2</b>
2016	\$6,376
2017	\$6,376
2018	\$6,376
2019	\$6,376
2020	\$6,376
Thereafter	\$1,275

**C. Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)**

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 500 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state contributes

40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

### Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2015 were as follows:

<b>VFFRPF</b>	<b>Firefighters</b>	<b>EMSD and Reserve Officers</b>
Municipality fee	\$30	\$105
Member fee	\$30	\$30

The City's actual contributions to the plan were \$30 for the year ended December 31, 2015.

In accordance with Chapter 41.24 RCW, the state contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2015, the fire insurance premium tax contribution was \$5.9 million.

## Actuarial Assumptions

The total pension liability for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- **Inflation:** 3%
- **Salary increases:** N/A
- **Investment rate of return:** 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2014 valuation report.

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

## Discount Rate

The discount rate used to measure the total VFFRPF pension liability was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the state will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. As the plan has assets managed by both the Washington State Investment Board (WSIB) and the Office of the State Treasurer (OST), the long-term expected rate of return of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5% expected return) and OST (4 percent expected return). The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term

expected rate of return of 7 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

### Sensitivity of NPL

The following presents the City's proportionate share of the VFFRPF net pension liability calculated using the discount rate of 7 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$31	\$30	\$29

### Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan's fiduciary net position is available in the separately issued State of Washington CAFR.

### Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported an asset of \$0 for its proportionate share of the VFFRPF plan's net pension asset. The City's proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2015, the City's proportion was 0.01%.

The VFFRPF collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30,

2014, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2015, the City recognized pension expense of \$30. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

**D. Other Local Government Pension Systems - Firemen's Pension Fund**

The City is also the administrator of a pension retirement system called the Firemen's Pension Fund. This system is shown as a trust fund in the financial reports of the City.

As of December 31, 2015, there were a total of one individual covered by this system, of whom is still employed.

The most recent actuarial study of the system was done by Milliman & Robertson, Inc. to determine the funding requirements as of January 1, 2002. As of this date, the value of assets valued at market was \$339,000 and the actuarial present value of future benefits was \$144,000, leaving an unfunded pension benefit obligation of \$0.

Since 1975 the City has not had any actuarially determined unfunded pension obligation under the Firemen's Pension Fund.

**NOTE 8 - RISK MANAGEMENT**

The city of Pullman is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City of Pullman separately purchases commercial standard property insurance coverage for building and personal property; automobile physical damage, inland marine. Boiler and machinery coverage is also purchased. Various deductibles apply by type of coverage.

There were no significant reductions in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years.

No insurance settlements have exceeded insurance coverage in 2015 or either of the two preceding fiscal years.

#### **NOTE 9 - SHORT-TERM DEBT**

The City had no short-term debt.

#### **NOTE 10 - LONG-TERM DEBT**

##### **A. Long-Term Debt**

The City issues general obligation and revenue bonds to finance the acquisition or construction of major capital assets. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General obligation bonds have been issued for general government and business-type activities and are being repaid from the applicable resources. Revenue bonds are repaid by proprietary fund revenues. The City is also liable for State of Washington Public Works Trust Fund Loans that were entered into for the purchase of infrastructure improvements and a State of Washington Local Option Capital Asset Lending Program loan for the purchase of fire equipment, which was paid off in 2015. These notes are considered obligations of the general government, and are being repaid, with general governmental or proprietary fund revenues, as appropriate.

In proprietary and similar trust funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

DEBT  
OUTSTANDING  
December 31, 2015

General Obligation Bonds and Notes:

2007: \$2,240,000 General Obligation Bonds maturing serially to 2017; interest rates from 4.00 percent to 5.00 percent; approved by voters as Proposition No. 1 on November 7, 2006 for parks, paths, and pedestrian improvements. 530,000

Revenue Bonds and Loans:

2009: \$2,685,000 Water and Sewer Revenue Bond; annual installments until 2029 at various rates between 3.00 and 4.75 percent; proceeds for construction of Airport Water Line and Well 8. Repayments from water/sewer revenues. 2,070,000

2006: \$1,776,500 State of Washington Public Works Trust Fund Loan; annual installments until 2016 at 0.50 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues. 210,746

2012: \$7,301,092 State of Washington Department of Ecology Water Pollution Control Revolving Fund Loan; annual installments start September 2015 until 2024 at 2.60%; proceeds for secondary process improvements project. Repayment from water/sewer revenues. 6,638,172

2014: \$1,674,000 Columbia State Bank Water and Sewer Revenue Bond; semi-annual installments start June 2015 until December 2023 at 3.24%; proceeds for improvements to the water/sewer utility project. Repayment from water/sewer revenues. 1,353,944

At December 31, 2015, the City has \$0 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$0 in sinking funds and \$700,000 reserves as required by bond indentures.

The annual debt service requirements to maturity for all long-term debt including Capital Leases are as follows:

<b>Year Ending</b> <b><u>December 31</u></b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2016	260,000	23,900	1,178,643	300,956
2017	270,000	13,500	1,001,428	272,797
2018	-	-	1,025,609	244,115
2019	-	-	1,060,459	214,466
2020	-	-	1,085,996	183,728
2021-2025	-	-	4,200,727	452,421
2026-2030	-	-	<u>720,000</u>	<u>87,298</u>
<b>TOTALS</b>	<b><u>\$530,000</u></b>	<b><u>\$37,400</u></b>	<b><u>\$10,272,862</u></b>	<b><u>\$1,755,781</u></b>

**NOTE 11 - LEASES**

**A. Capital Leases**

The City had no capital leases as of December 31, 2015.

**NOTE 12 - CHANGES TO LONG-TERM LIABILITIES**

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2015</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds	\$815,000	\$ -	\$285,000	\$530,000	\$260,000
Capital Leases	32,457	-	32,457	-	-
Net OPEB Obligations	1,528,898	601,748	187,854	1,942,792	187,854
Net Pension Liability	-	4,999,588	-	4,999,588	-
Compensated Absences	<u>576,007</u>	<u>90,483</u>	<u>2,743</u>	<u>663,747</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$2,952,362</u>	<u>\$5,691,819</u>	<u>\$508,054</u>	<u>\$8,136,127</u>	<u>\$447,854</u>
<b>Business-Type Activities:</b>					
Bonds:					
Revenue Bonds	\$3,680,000	\$ -	\$256,056	\$3,423,944	\$260,827
Government, Bank, and Other Loans	8,173,525	-	1,324,607	6,848,918	917,816
Net Pension Liability	-	1,746,584	-	1,746,584	-
Compensated Absences	<u>176,280</u>	<u>1,581</u>	<u>4,955</u>	<u>172,906</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$12,029,805</u>	<u>\$1,748,165</u>	<u>\$1,585,618</u>	<u>\$12,192,352</u>	<u>\$1,178,643</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$56,403 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

**NOTE 13 - CONTINGENCIES AND LITIGATION**

The City has recorded in its financial statements all material liabilities, including any estimates for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, insurance policies are adequate to pay all known or pending claims except the claim described below.

The City participates in a number of federal-and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

On July 22, 2014, resolution R-70-14 was passed by Council authorizing the execution of a Joint Operating Agreement for the Pullman-Moscow Regional Airport. The agreement solidifies Pullman and Moscow as equal and joint partners in the operation of the airport, with all related rights and responsibilities, including financial. Approval and execution of the agreement by both Pullman and Moscow will qualify the Pullman-Moscow Regional Airport for Federal Aviation Administration (FAA) grants. The Pullman-Moscow Regional Airport is requesting a FAA grant for the runway re-alignment, which will require an estimated local matching fund of \$6,250,000. The City of Pullman is committed to their one-half share of approximately \$3,125,000 over the next six years to provide for grant match funds. This exposure is expected to be reduced by fundraising efforts. On July 21, 2015, resolution R-56-15 was passed by Council authorizing a \$2,500,000 restricted donation of local match funds for the Pullman-Moscow Regional Airport Runway Realignment Project. As of December 31, 2015, total donations received for this project was \$2,000,000. As of December 31, 2015, the City of Pullman has funded \$1,250,000 for this commitment.

On Jan 4<sup>th</sup>, 2010 the City as well as several other cities in Washington received a Petition for Refund, from Verizon Northwest dated December 31, 2009, in the amount of \$187,250 for utility taxes paid on DSL service from January 1, 2005 through June 30, 2008. There were no supporting documents for the refund amount. No suit has been filed. Management feels that the claim is not substantiated, and thus there is no way at present to determine the validity or dollar amount of a potential refund. If the claimant's petition is successful, 50% of the claim would be charged to the General Fund, with the remaining amount evenly split between the Street and Transit Funds. Due to the uncertainty, validity and dollar amount of any potential judgment in favor of the Petitioner, there have been no adjustments made to the records of these funds.

#### **NOTE 14 - RESTRICTED COMPONENT OF NET POSITION**

These resources are set aside for specific uses and/or are restricted by law for specific purposes. The government-wide statement of net position reports \$7,498,281 of restricted component of net position, \$1,518,927 for highway and streets, \$1,627,894 for culture and recreation, \$1,750 for public safety, \$700,000 for debt service, \$268,315 for nonexpendable cemetery perpetual care, \$3,020,602 for nonexpendable permanent endowment, and \$360,793 for other purposes.

#### **NOTE 15 - INTERFUND BALANCES AND TRANSFERS**

##### **A. Classification of Interfund Transactions**

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.
2. Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."
3. Contributions to the capital to enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

4. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity.

The following table displays interfund balances at December 31, 2015:

<b>Fund Type</b>	<b>Due From Other Funds</b>	<b>Due To Other Funds</b>	<b>Interfund Loans Receivable</b>	<b>Interfund Loans Payable</b>
General Fund	\$ -	\$ -	\$120,000	\$ -
Street	-	-	-	-
Other Gov't Funds	-	-	-	-
Internal Service	-	-	-	-
Agency	-	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	-	-	\$120,000
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$120,000</b>	<b>\$120,000</b>

The following table displays interfund activity during 2015:

<b>Fund Type</b>	<b>Operating Transfers</b>		<b>Residual Equity Transfers</b>	
	<b>In</b>	<b>Out</b>	<b>In</b>	<b>Out</b>
General Fund	\$ -	\$(1,287,096)	\$ -	\$ -
Street	-	(33,468)	-	-
Other Gov't Funds	257,431	(223,963)	-	-
Internal Service	9,558	-	-	-
Agency	1,282,013	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	(4,475)	-	-
<b>Totals</b>	<b>\$1,549,002</b>	<b>\$(1,549,002)</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTE 16 - RECEIVABLE AND PAYABLE BALANCES**

**A. Receivables**

Receivables at December 31, 2015 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Government Funds</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$417,260	\$257,276	\$249,669	\$268,714	\$1,192,919
Street Fund	86,139	-	29,834	-	115,973
Other Governmental Funds	17,560	34,461	2,417	-	54,438
Internal Service Funds	-	-	-	5,477	5,477
Doubtful Accounts	<u>(66,845)</u>	-	-	-	<u>(66,845)</u>
Total					
Governmental Activities	<u>\$454,114</u>	<u>\$291,737</u>	<u>\$281,920</u>	<u>\$274,191</u>	<u>\$1,301,962</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-Type Activities:					
Utility Fund	\$841,185	\$ -	\$594,374	\$12,359	\$1,447,918
Transit Fund	<u>6,780</u>	-	<u>1,004,828</u>	<u>85,739</u>	<u>1,097,347</u>
Total					
Business-Type Activities	<u>\$847,965</u>	<u>\$ -</u>	<u>\$1,599,202</u>	<u>\$98,098</u>	<u>\$2,545,265</u>

## B. Payables

Payables at December 31, 2015 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General Fund	\$136,806	\$1,018,449	\$569,100	\$1,724,355
Street Fund	115,634	34,348	-	149,982
Other Governmental Funds	37,947	5,213	-	43,160
Internal Service Funds	109,891	168,660	-	278,551
Reconciliation of balances in fund financial statements to government- wide financial statements:				
Compensated absences	<u>      -</u>	<u>607,344</u>	<u>      -</u>	<u>607,344</u>
Total Governmental Activities	<u>\$400,278</u>	<u>\$1,834,014</u>	<u>\$569,100</u>	<u>\$2,803,392</u>
<b>Business-Type Activities:</b>				
Utility Fund	\$163,040	\$333,906	\$53,375	\$550,321
Transit Fund	<u>133,055</u>	<u>250,116</u>	<u>      -</u>	<u>383,171</u>
Total Business-Type Activities	<u>\$296,095</u>	<u>\$584,022</u>	<u>\$53,375</u>	<u>\$933,492</u>

### **NOTE 17 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)**

The City adopted the requirements of GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2008. Following accrual accounting principles, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information to determine future demands on future cashflows.

We used the alternative measurement method permitted under GASB Statement No.45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in June 30, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Health costs and trends were determined by Milliman and used by the OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial valuation cost method used to determine AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation.

## **A. Plan/Trust Description**

The City of Pullman Firemen Pension Fund is a single-employer defined benefit pension fund established and administered by the City in accordance with RCW 41.16.

Other postemployment benefit plans provide lifetime medical benefits to all firefighters and uniformed police officers who were hired prior to October 1, 1977 (RCW 41.26).

There is 1 active firefighter covered under these plans as of December 31, 2015. There are 14 retirees receiving benefits from the plans.

The City is a participating employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

## **B. Funding Policy**

The City is obligated by the Revised Code of Washington to make all required contributions to the plans. The major funding sources for these plans are property taxes, retail sales and use tax, investment earnings, and the State fire insurance premium tax. These benefits are funded on a pay-as-you-go basis through the General Fund. The City does not have a funding policy and there are no assets designated for the benefits. Employees are not required to make contributions to the plans.

The Association of Washington Cities Employee Benefit Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$2,264.40 per month for non-Medicare enrolled retiree-only coverage and \$1,054.33 for Medicare enrolled retiree. Police retirees of the City receiving medical benefits from the Trust contribute \$1,651.63 per month for non-Medicare enrolled retiree-only coverage and \$515.33 for Medicare enrolled retiree. Fire retirees of the City receiving medical benefits from the Trust contribute \$612.77 per month for non-Medicare enrolled retiree-only coverage and \$539.00 for Medicare enrolled retiree.

## **C. OPEB Cost and Obligation**

The City reimbursed a fixed amount of \$104.90 per month in 2015 for a Medicare supplement for 13 retirees eligible for Medicare.

Employer validated claims for medical and hospitalization reimbursements are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims. The City also carries nursing-home coverage on all active and retired LEOFF 1 employees. During 2015, expenditures of \$187,854 were recognized for postretirement health care. At December 31, 2015, annual required contribution (ARC) is \$678,102 and the adjustment to ARC is \$133,057.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the years ended December 31, were:

	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2015	\$601,748	31.2%	\$1,942,792
2014	\$485,781	29.5%	\$1,528,898
2013	\$524,460	32.5%	\$1,186,565

**D. Funded Status**

Funded Status

Validation Date

Actuarial Value of Assets

Actuarial Accrued Liability (AAL)

Unfunded Actuarial Unfunded Actuarial (UAAL)

Funded Ratio

Covered Payroll

UAAL - Percentage of Covered Payroll

OPEB Plan

December 31, 2015

\$ -

\$ 7,303,218

\$ 7,303,218

0.00%

N/A

N/A

Actuarial Methods and Assumptions

Validation Date

Actuarial Cost Method

Amortization Method

Remaining Amortization Period

Asset Valuation Method

OPEB Plan

December 31, 2015

Projected Unit Credit

N/A

N/A

N/A

See the Schedule of Funding Progress.

**NOTE 18 – HEALTH & WELFARE**

The City of Pullman is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

## **NOTE 19 – ENDOWMENT FUNDS**

Endowments are provided to the city on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor did not provide specific instructions, RCW 35.21.100 permits the city Council to authorize to expense the net appreciation of the investments of the endowment funds.

The City of Pullman maintains two permanent funds:

The Lawson Gardens Park Endowment Fund was created to care and maintain the Lawson Gardens Park. This fund comprises of corpus assets and assets available for use for the purpose of paying the maintenance and operation costs of Lawson Gardens Park. Resolution R-24-91 was passed by Council establishing the "Lawson Gardens Park Endowment Fund", and providing for its administration and the purposes for which assets and income or the fund may be used. For 2015, net decrease in the fair value of investments were \$21,722 reported as restricted for nonexpendable perpetual care on the statement of net position.

The Cemetery Endowment Care Fund was created to provide ongoing maintenance and improvements of the City operated cemeteries. Revenues are generated from a thirty percent portion of the cemetery grave sales. Pullman City Code 4.12 governs the use of the fund. There are no appreciable investments in the fund.

Restricted for nonexpendable perpetual care endowments as of December 31, 2015:

Lawson Gardens Park Endowment Fund	\$3,020,602
Cemetery Endowment Care Fund	268,315
Total Restricted Net Position	<u>\$3,288,917</u>

## **NOTE 20 - OTHER DISCLOSURES**

### **A. Major Receivables**

Washington State University is a major user of the City's wastewater treatment facilities. Through an amended interlocal agreement, it reimburses the City for 36.4 percent of the facility maintenance and operating expenses.

The City has an interlocal agreement with Washington State University to provide fire and emergency medical protective services.

The City has an interlocal agreement with Washington State University to provide public transportation services to staff, students, faculty and retirees.

### **B. Capital Contributions**

Proprietary Activities: The utility fund recorded capital contributions of \$639,360 from contributions of water mains, fire hydrants, and sewer main capital assets contributed from developers and customers.

### **C. Prior Period Adjustments**

Governmental Activities: Net positions at the beginning of 2015 have been restated to reclassify a fund type from a trust fund to a permanent endowment fund. The effect of the restatement was to increase net position by \$3,050,976.

**D. Accounting and Reporting Changes**

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ending 2008 (See Note 17).

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, for the fiscal year ending 2015 (See Note 7). Net positions at the beginning of 2015 have been restated to reflect the cumulative effect of a change in accounting principles.

CITY OF PULLMAN, WASHINGTON  
Other Post Employment Benefits

Required Supplementary Information  
LEOFF 1 Retiree Medical Benefits  
Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	\$ -	\$7,303,218	\$7,303,218	0%	\$ -	0%
12/31/2014	\$ -	\$5,953,920	\$5,953,920	0%	\$ -	0%
12/31/2013	\$ -	\$6,165,530	\$6,165,530	0%	\$ -	0%
12/31/2012	\$ -	\$4,670,149	\$4,670,149	0%	\$ -	0%
12/31/2011	\$ -	\$5,009,851	\$5,009,851	0%	\$ -	0%
12/31/2010	\$ -	\$4,092,490	\$4,092,490	0%	\$ -	0%
12/31/2009	\$ -	\$4,924,307	\$4,924,307	0%	\$ -	0%
12/31/2008	\$ -	\$4,924,307	\$4,924,307	0%	\$ -	0%
12/31/2007	\$ -	\$ -	\$ -	0%	\$ -	0%
12/31/2006	\$ -	\$ -	\$ -	0%	\$ -	0%
12/31/2005	\$ -	\$ -	\$ -	0%	\$ -	0%

CITY OF PULLMAN, WASHINGTON  
Schedule of Proportionate Share of the Net Pension Liability  
Required Supplementary Information  
As of June 30

PERS 1	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0688%
Employer's proportionate share of the net pension liability (asset)	\$3,803,671
Employer's covered employee payroll	\$404,133
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	941.19%
Plan fiduciary net position as a percentage of the total pension liability	96.57%

PERS 2/3	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0838%
Employer's proportionate share of the net pension liability (asset)	\$2,942,501
Employer's covered employee payroll	\$7,286,369
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.38%
Plan fiduciary net position as a percentage of the total pension liability	97.46%

LEOFF 1	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.0257%
Employer's proportionate share of the net pension liability (asset)	\$(309,826)
Employer's covered employee payroll	\$75,456
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	(410.06%)
Plan fiduciary net position as a percentage of the total pension liability	12.14%

LEOFF 2	2015
Employer's proportion of the net pension liability (asset)	0.1763%
Employer's proportionate share of the net pension liability (asset)	\$(1,811,981)
State's proportionate share of the net pension liability (asset) associated with the employer	\$(301,145)
TOTAL	\$(2,113,126)
Employer's covered employee payroll	\$5,166,930
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	(40.90%)
Plan fiduciary net position as a percentage of the total pension liability	533.09%

CITY OF PULLMAN, WASHINGTON  
 Schedule of Employer Contributions  
 Required Supplementary Information  
 As of December 31

PERS 1	<u>2015</u>
Statutorily or contractually required contributions	\$334,195
Contributions in relation to the statutorily or contractually required contributions	<u>\$334,195</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$364,260
Contributions as a percentage of covered employee payroll	10.13%

PERS 2/3	<u>2015</u>
Statutorily or contractually required contributions	\$373,567
Contributions in relation to the statutorily or contractually required contributions	<u>\$373,567</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$7,618,124
Contributions as a percentage of covered employee payroll	10.50%

LEOFF 1	<u>2015</u>
Statutorily or contractually required contributions	\$143
Contributions in relation to the statutorily or contractually required contributions	<u>\$143</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$79,572
Contributions as a percentage of covered employee payroll	0.52%

LEOFF 2	2015
Statutorily or contractually required contributions	\$258,400
Contributions in relation to the statutorily or contractually required contributions	<u>\$258,400</u>
Contribution deficiency (excess)	\$ -
Covered employer payroll	\$5,490,731
Contributions as a percentage of covered employee payroll	5.23%

**CITY OF PULLMAN, WASHINGTON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ending December 31, 2015**

Federal Agency Name Pass-Through Agency Name / Program Title / Cluster Title, if applicable	Federal CFDA Number	Other Identification Number	From Indirect Awards	From Direct Awards	Total
<b>Department of Transportation, Federal Transit Administration (FTA)</b>					
Washington State Department of Transportation (WSDOT) / Formula Grants for Rural Areas (Operating Grant)	20.509	GCB1629	290,952		290,952
Formula Grants for Rural Areas (Operating Grant)	20.509	GCB2083	307,568		307,568
<b>Total Department of Transportation, Federal Transit Administration (FTA)</b>					<b>598,520</b>
<b>Department of Transportation, National Highway Traffic Safety Administration (NHTSA)</b>					
WA Traffic Safety Commission / State and Community Highway Safety / State and Community Highway Safety	20.600	Target Zero - Impaired Driving	8,126		8,126
Occupant Protection Incentive Grants / State and Community Highway Safety	20.600	Target Zero - Seat Belts	966		966
<b>Total Department of Transportation, National Highway Traffic Safety Administration (NHTSA)</b>					<b>9,092</b>
<b>Department of Transportation, Federal Highway Administration (FHWA)</b>					
Washington State Department of Transportation (WSDOT) / Highway Planning and Construction / Highway Planning and Construction	20.205	TAP-0027(015)	10,184		10,184
<b>Total Department of Transportation, Federal Highway Administration (FHWA)</b>					<b>10,184</b>
<b>Department of Transportation, Federal Aviation Administration (FAA)</b>					
Airport Improvement Program	20.106	3-53-0051-36		9,512	9,512
Airport Improvement Program	20.106	3-53-0051-40		1,534,601	1,534,601
Airport Improvement Program	20.106	3-53-0051-41		4,550,790	4,550,790
<b>Total Department of Transportation, Federal Aviation Administration (FAA)</b>					<b>6,094,903</b>
<b>Department of Justice, Bureau of Justice Assistance</b>					
Bulletproof Vest Partnership Program	16.607	BVP		3,639	3,639
<b>Total Department of Justice, Bureau of Justice Assistance</b>					<b>3,639</b>
<b>Department of Justice, Violence Against Women Office</b>					
Washington State Department of Commerce / Violence Against Women Formula Grant	16.588	2013-WF-AX-0055	3,074		3,074
<b>Total Department of Justice, Violence Against Women Office</b>					<b>3,074</b>
<b>Total Federal Awards</b>			<b>\$ 620,870</b>	<b>\$ 6,098,542</b>	<b>\$ 6,719,412</b>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

## City of Pullman

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2015

#### Note 1: BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City's financial statement. The City uses the accrual basis of accounting.

#### Note 2: PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### Note 3: FEDERAL AVIATION ADMINISTRATION GRANTS

The City is the primary recipient of all Federal Aviation Administration grants (CFDA 20.106) for its sub recipient, the Pullman-Moscow Regional Airport. As the primary recipient, the City monitors the activities of the sub recipient in accordance with OMB Circular A-133. All other compliance requirements and specific grant terms are tested at the sub recipient level and, as such, are not included in the single audit reports of the City.

#### Note 4: INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>